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FISCAL IMPACT STATEMENT

LS 7122

BILL NUMBER: HB 1412

NOTE PREPARED: Feb 17, 2013

BILL AMENDED: Feb 14, 2013

SUBJECT: Economic Development.

FIRST AUTHOR: Rep. Heuer

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill permits the Indiana Economic Development Corporation (IEDC) to award an EDGE+ bonus credit to taxpayers who are subject to the federal medical device excise tax (MDET) and create or retain jobs in Indiana. The bill also makes technical corrections.

Effective Date: (Amended) Upon Passage.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to revise forms, update instructions, and modify the existing EDGE approval process. The IEDC's current level of funding and resources should be sufficient to administer this tax credit.

Explanation of State Revenues: (Revised) *Summary* - This bill establishes a bonus EDGE+ credit for businesses that are subject to the MDET. The bill states that the EDGE+ credit is provided in addition to the standard EDGE credit for job creation or job retention. The EDGE+ credit may be offered for jobs created or retained by a qualifying taxpayer between May 15, 2013, and May 15, 2018. As a result, the tax credit goes into effect beginning in tax year 2013 and the revenue impact could begin in FY 2014. EDGE+ is a refundable credit that may be applied to an adjusted gross income tax liability. The estimated revenue loss from taxpayers claiming an EDGE+ credit may range from \$3.6 M to \$7.3 M per year beginning in FY 2014. Credits claimed will directly reduce deposits to the state General Fund. The actual amount of credits claimed depends largely

on the number of applicants, and the amount of credits the IEDC authorizes.

(Revised) *Additional Information* - The EDGE+ credit for creating jobs equals \$5,000 per job created in the taxable year and the EDGE+ credit for retaining jobs equals \$2,500 per job retained in the taxable year. In order to receive the credit, a taxpayer must submit an application to the IEDC for approval. The IEDC will evaluate applications using the same criteria used for the EDGE credit, except the EDGE+ credit may be offered only if the taxpayer has MDET liability. Otherwise, the credit has all the other attributes of the EDGE credit. That includes the \$10 M annual statewide credit limit for retaining jobs, and the requirement that credits for retaining jobs may only be offered to firms that employ at least 35 people. The EDGE+ credit may be offered for jobs created or retained between May 15, 2013, and May 15, 2018. The bill contains a provision that expires the credit if the MDET is repealed.

The MDET is a federal excise tax imposed on the sale of certain medical devices by the manufacturer or importer of the device. The tax equals 2.3% of the sale price of the device, and it applies to all sales after December 31, 2012. According to the Quarterly Census of Employment and Wages, there are approximately 280 Indiana manufacturing establishments that may be subject to the MDET. The total employment of those establishments in the first quarter of 2012 was 26,500. That is nearly 4,000 more than the total employment of businesses in that sector for the first quarter of 2011. Based upon information from the Annual Survey of Manufacturers published by the U.S. Census Bureau, Indiana medical equipment manufacturers may pay an estimated in \$77.5 M in MDET in 2013.

The revenue estimate is based on changes in sector employment between 2011 and 2012. The lower bound estimate assumes that 5% of the qualifying businesses will apply and receive the EDGE+ credit. The upper bound estimate assumes that 10% of the qualifying businesses will apply and receive the EDGE+ credit.

Background Information - The EDGE credit is for businesses that either create new investment and jobs in Indiana, or undertake projects to retain existing jobs in Indiana. Credit amounts are determined by the IEDC, but may not exceed the incremental income tax withholdings of new or retained employees. EDGE credits are awarded for up to 10 years during which time the credit amounts may be used. The IEDC is authorized to make EDGE credits refundable. EDGE credits may be taken against a taxpayer's individual or corporate AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The aggregate amount of credits awarded for projects to retain existing jobs in Indiana may not exceed \$10 M per year. There is not an aggregate limit on EDGE credits for new jobs. In 2010, the EDGE credit was claimed by 1,078 taxpayers for a total of \$35.8 M.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Unemployment Payroll Reporting Database; LSA Income Tax Database; U.S. Census Bureau, *Annual Survey of Manufacturers 2011*, 11/08/2012; Bureau of Economic Statistics.

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